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Government
Publications

THE
1992
ONTARIO BUDGET
GUIDEBOOK

*Basics in Government
Budget-making*



Ontario

Treasurer of Ontario



In addition to this Budget Guidebook,
the *Ontario Fiscal Outlook* and the *Ontario
Economic Outlook* for 1992 are available.

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TABLE OF CONTENTS

Introduction/*Page 1*

I

The Ontario Government and the Economy/*Page 3*

II

How Government Raises Money/*Page 5*

III

How Government Spends /*Page 8*

IV

When Revenues and Expenses Don't Match /*Page 11*

V

Ontario's Economic Outlook /*Page 13*

VI

Ontario's Fiscal Outlook /*Page 15*

VII

Working for Economic Recovery /*Page 18*

VIII

Putting Together the 1992 Budget /*Page 20*

Meeting the Challenges /*Page 23*

Premier Bob Rae's Television Address /*Page 24*
(January 21, 1992)

The Ontario Government is embarking on one of the most basic exercises that a government faces — drawing up its annual Budget.

This year, the exercise is more important than ever. Fundamental changes to the global economy, a high dollar, free trade, the policies of the Federal Government and a persistently deep recession have combined to flatten our economy.

With our income dropping at the same time as spending demands continue to increase, managing our money wisely has become a critical issue.

That's what budget-making is all about — managing money wisely. Just as the family budget has to take care of the basic needs of every family member, so the Government must make a Budget that best meets the economic and social needs of its people.

Why this Guidebook is important to you

As we prepare the Budget for 1992, we're faced with some of the toughest choices we have ever had to make. In the past, Budget decisions have been made by governments without input from the people they govern. Last year, we promised to change that. We promised to open up the budget-making process so that the people of Ontario could be part of the discussions that shape Budget decisions.

The first step we took was to release the 1992 *Ontario Fiscal Outlook* in late January. (FISCAL refers to financial matters; Ontario's fiscal, or financial, year stretches from April 1 to March 31.)

The Fiscal Outlook contains more detailed information about the Province's finances than

has ever been available before at this stage in the budget-making process. It discusses Government income and expenses for this year, and forecasts the same for next year. It also estimates what will happen to income and expenses if we do not take steps to control spending and bolster the provincial economy.

(A companion document, the *Ontario Economic Outlook*, was released in late 1991. Both are available through the Ministry of Treasury and Economics. See page 23 for ordering information.)

This Guidebook is another step in providing the people of Ontario with the information they need to be part of a more open budget-making process.

Budget secrecy is out-dated

Drawing up a government budget has a mystique about it. People tend to think only specialists can do it and understand what it all means. That arises in part from the traditional secrecy that has surrounded budget-making in Canada.

Originally, *budget secrecy* was supposed to prevent individuals from profiting from advance knowledge of tax changes in the budget. Gradually that element of secrecy has been extended to cover even the state of public finances. This Government doesn't believe that's appropriate or democratic.

The need for a more open process is even more urgent now. The 1992 Budget will have a significant influence on how we weather the economic problems we are currently facing. The decisions we make during the next few months will have an effect on everyone in the province.

There is always public speculation and debate prior to a budget, and criticism of it after. Opening up the budget process won't change that, but it will change the basis on which debate takes place. For the first time, the people of Ontario will be debating budget options with the same information the Government uses in making its decisions.

Ontario's Budget is huge, larger than any company operating in Canada, and it is very complex. A household has a dozen or so areas it spends money on. The Ontario Government has tens of thousands of services. Most companies, even the largest, are in a handful of businesses. The Ontario Government is in thousands of businesses.

Consequently, a discussion of the provincial budget can get complicated; but the principles involved are familiar to everyone. We all make decisions every day very much like the ones surrounding the provincial budget — how is our family going to support itself? what should we be spending our money on? what share of our money should go to daily expenses? what share should go to providing for periods of low income or retirement? if we can't afford everything, what are our priorities?

These are the same questions any government asks itself before making decisions. We believe public debate at this time will help us to create a Budget that will chart a solid and productive course for the province during the coming year. Moreover, we think people have a right to be involved.

What's in this Guidebook?

In this Guidebook, we're going to talk about:

- the role public spending plays in our lives,
- the importance of a budget in managing public finances,
- how Government manages its income and spending,
- the present-day economic and financial situation in Ontario, and
- how you can have some input into the process of drawing up the 1992 Budget.

The Ontario Government and the Economy

We measure the size of an economy according to the total dollar value of all the goods and services it produces. Ontario has the largest economy of any province in Canada. We produce a hefty \$280 billion in goods and services every year, about 40 per cent of the country's output.

The Ontario Government will spend about one-fifth that amount this fiscal year — nearly \$53 billion. That makes the Government a significant financial force in the provincial economy. Ontario's decisions also affect the larger Canadian economy.

Most of us are probably unaware of how important a role public spending plays in our lives. Yet, everywhere around us we see buildings, roads, transport systems, theatres, playgrounds and a thousand other examples of what our money created. These are known as hard assets, or *infrastructure*. And each one represents a facility that we use. These assets are for more than just our convenience. A modern economy needs infrastructure like roads and bridges, mass transit and water and sewer systems to keep functioning. These services are deemed so important that all are managed by public, rather than private, agencies.

Infrastructure must be up-to-date and well-maintained for business to be competitive, or for a government to attract new industry. Paying for the infrastructure and for its maintenance is an investment in the economy. The money we spend on infrastructure is considered a *capital investment*. In 1991, we spent \$3.9 billion in capital investment in Ontario, an amount equal to more than one-third the Province's deficit.

It's like borrowing money to buy a house. You will spend many years paying it off, but you are creating a family asset. Or you may borrow to repair the roof of your family home. You incur a debt, but your house is worth more, and it's more comfortable to live in. And provided your basic finances are sound, large debts don't undermine your future.

Capital investment is not the largest part of what the Province spends. Ontario also needs education and health care systems to train and care for its citizens, a legal system to settle disputes, cultural organizations to provide recreation and stimulation beyond the work world.

These are known as soft assets. They make a valuable contribution to both the quality of life we enjoy and to how we are viewed by the rest of the world. In a way, these 'soft assets' are also an investment, but as they are on-going expenses, they are referred to as *operating expenses* or operating costs.

Operating costs support the public services that are central to the quality of our lives, but they are not cheap. The Province spent 53 per cent of its operating budget on education and health care in 1991.

Creating prosperity for all

Ontario citizens have been ambitious and hard-working. At the same time, we've developed a common belief that the good life, to be enjoyable, must be shared by all.

Children who have enough to eat, who can count on good health care and who can get a good education, will contribute more to Ontario as adults. Workers who feel their right to a fair and equitable wage is respected will want to be part of creating prosperity in the province. A battered woman who can find shelter from a violent home will be able to rebuild her life. These can all be regarded as investments in the future. But we also enjoy our own good fortune more when we know that the vulnerable in our society are afforded special protection and support from circumstances or people that threaten them.

How Government Raises Money

Ontario currently raises about \$43 billion a year in income, or *revenue*. The amount varies every year, depending on the economy and what the Government does to make sure there is enough public money for the Province's needs.

Where do Government revenues come from?

There are three major sources of income for the Ontario Government. Figure 1 shows where each dollar of Government revenue comes from.

The largest source is from its own *taxes*. These can generally be divided into four categories — personal income tax, corporate taxes, retail sales tax and commodity taxes on products like gasoline, alcohol and cigarettes.

Personal income tax raises about one-third of the Government's revenues. Retail sales taxes raise about 19 per cent. Another five per cent comes from taxes on commodities. Corporate taxes, including the employer health tax, provide about 13 per cent of Government revenues. Other taxes raise about four per cent.

Taxes, then, provide 74 per cent of Government revenues.

A second source of income is *federal transfer payments*, that is, payments made to Ontario by the Federal Government. This is done mainly under two programs — Established Programs Financing which helps pay for health care and post-secondary education, and the Canada Assistance Plan, which helps pay for social assistance and other programs. Federal transfer pay-

ments are now about 16 per cent of Ontario's revenues, providing a much lower percentage of our costs than a decade ago.

The last source of income — about 10 per cent — comes from *non-tax sources* such as the Liquor Control Board of Ontario, lotteries, fees for licences and permits like car registration and drivers' licences and fees for various Government services.

How do our taxes compare to other places?

That's a difficult question to give a precise answer to because every jurisdiction applies different kinds of taxes and at different rates. Not only tax rates differ; so do tax exemptions and deductions. And, of course, the level of government services may differ, too.

This section provides some basic comparisons between Ontario, other provinces and the United States, within these limitations.

We have an agreement with the Federal Government that Ottawa collects our *personal income taxes*, but we must adhere to a single rate no matter what the income level. That is, under the terms of the agreement, we impose an income tax on Ontarians equal to 53 per cent of the basic federal tax.

Composition of Ontario Revenues • 1991-1992*

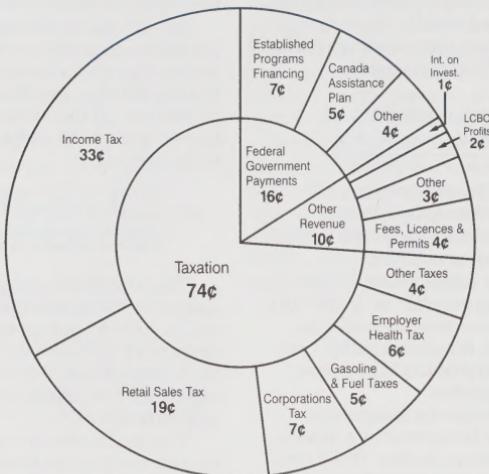


Figure 1

* Forecast as of November 1991.

Source: Ontario Ministry of Treasury and Economics.

Because of this, Ontario's income tax varies for low- and higher-income earners only insofar as the federal income tax does. So Ontario has established programs that exempt low-income earners from Ontario income tax and apply a surtax, or additional tax, to those who have a gross income of \$84,000 or more a year.

Taking into account all these programs, our income tax is the third lowest in Canada.

Ontario's *retail sales tax* is eight per cent, which puts us in the mid-range in Canada. It was last raised — from seven per cent — in 1988. Newfoundland has a 12 per cent retail sales tax; Alberta has a zero rate.

Ontario's *commodity taxes* vary in comparison with other Canadian provinces. Our tax on regular unleaded gasoline is the second highest in Canada and on diesel fuel, the third highest. However, our tax on cigarettes is the third lowest in Canada and on beer, the second lowest.

Ontario's *corporate taxes* are viewed as higher than corporate taxes in the United States. However, when all corporate taxes (including employer-paid health care costs) are taken into account, the overall tax cost to businesses in Ontario is broadly similar to taxes in other countries, including the U.S.

Is the Government planning changes to our tax system?

Yes. The Government is working to improve the fairness of the tax system. A fair tax system ensures that the costs of government services are shared among all the people of Ontario, according to their ability to pay.

The Government created the *Fair Tax Commission* soon after the 1990 election. The Commission is holding consultations with taxpayers around the province. It will be making reports about a minimum tax on corporate profits and a land speculation tax in the near future.

Over the next two years, the Commission will be looking at how the present tax system provides income for the government. The Commission will examine ways in which the tax system might be used to promote a healthier environment. It will be considering options for a tax on wealth and will be reviewing the fairness of the current property tax system, tax discrimination against women and changes to Ontario's sales tax in view of the federal Goods and Services Tax. The 1991 Budget took some first steps to making the tax system fairer. It gave the biggest break to low-income taxpayers in the history of the Ontario Tax Reduction program. It increased the personal income tax surtax on higher-income earners, and it increased the capital tax for banks and loan and trust companies.

We believe it's important to continue to emphasize fairness in the tax system — to make sure than the present system of collecting taxes is efficient and to look at whether or not the tax burden is being shared fairly among all the people of Ontario.

How Government Spends

How does the Government spend our money?

The Government will have operating expenses of about \$49 billion in the 1991 fiscal year. Figure 2 shows how each dollar of government operating expenses are allocated.

The Government actually transfers a large part of its revenues to other agencies who supply Ontarians with public services. Some of these agencies — municipalities, universities, schools and colleges and hospitals — supply our basic public services.

Almost three-quarters of the total provincial operating budget is spent on three important sectors:

- Health care accounts for about 34 per cent of the Province's spending.
- Social services — including public housing, child care, legal aid and income maintenance programs like seniors tax grants and social assistance — take up another 21 per cent.
- Education accounts for 19 per cent and covers all institutions, from kindergartens through universities.

Of the remaining portion of the budget, 16 per cent is spent directly by the Government on programs like provincial roads, law enforcement, agricultural assistance, environmental protection and regulation of consumer practices. Ten per cent is paid as interest on the public debt (see page 12 for further discussion).

Has government spending changed over the years?

Yes. For the last several years, Ontario Government operating expenses have been growing about 10 per cent a year. In 1991, operating costs were up more than 12 per cent over the previous year.

Why do programs keep getting more expensive?

Inflation, the tendency for general price levels to rise, is one reason. Each time that the inflation rate increases by one percentage point, the Government's expenses rise about \$400 million. Thus, even though inflation is now very low, costs keep rising.

Composition of Ontario Operating Expenditures • 1991-1992*

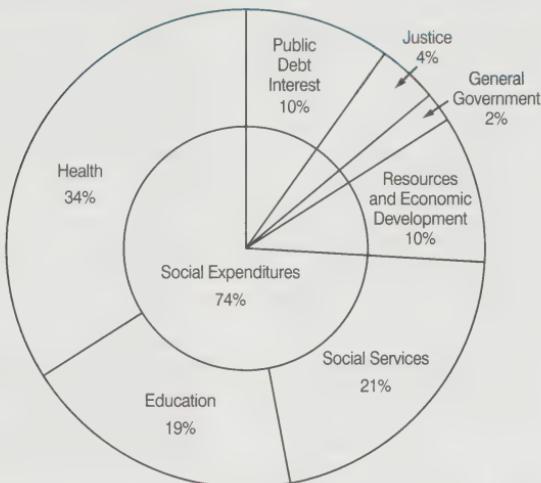


Figure 2

* Forecast as of November 1991.
Source: Ontario Ministry of Treasury and Economics.

In addition, social services have taken up a larger portion of the budget. Starting about ten years ago, spending on social services began to climb, increasing from 13 per cent of total Ontario Government spending to about 21 per cent today. Most of this is due to increases in legal aid, public housing and social assistance.

The reasons for these increases vary according to the program, however. More

money is being spent on public housing because building projects that started some years ago are now finished and rental subsidies have to be paid. In the case of social assistance, the cost has risen sharply in the last couple of years because of large-scale job losses. The number of people needing social assistance in Ontario has almost doubled in the last two years.

There are other factors unique to each service or program. For example, there has been a three per cent annual increase in the number of visits to doctors, even though the population has been growing at only half that rate. Why? The reasons are varied and debatable, but some influences might be the aging population, our increasing focus on good health and the improved medical treatments that are being developed.

Another example is the increased demand for spending in education. There were more people wanting to attend community colleges this year. Why? Unemployment has sent older workers back to school and encouraged recent high school graduates to acquire more specific skills.

Does the Government make an effort to regulate these expenses?

Yes. For one thing, that's what a budget does. Tracking revenues and expenses gives us a clear picture of our finances.

Keeping a check on what percentage of the budget each program or sector consumes helps to give the Government a

clear picture of where public resources are being applied. (Chapter Seven details very specific measures the Government has taken in the past year.)

But there are many factors affecting revenues and expenses that are beyond a government's ability to regulate. We are part of a larger economy, a regional economy, a global economy. As the globe 'shrinks', we are more and more likely to be affected by economic changes in other parts of the world.

If those changes produce a drastic change in either income or expenses, our finances suffer an imbalance that is difficult to correct. That's the situation Ontario faces today.

Ontario isn't alone in its dilemma. Many governments are facing the same predicament. There are profound and permanent economic changes sweeping the world. We are all trying to adjust, trying to find our footing in the new economic reality.

IV

When Revenues and Expenses Don't Match

Just as we expect a household budget to balance, we tend to think government revenues and expenses should always balance. However, some argue that it isn't always in people's best interests for their government to have a balanced budget.

They maintain that the government plays such an important role in the general economy that it should try to act as a counterweight to prevailing trends. That is, it should spend during a recession and pay off its debt when times are good.

Ontario's fiscal year is from April 1st to March 31st. Sometime in the spring, after the federal government has introduced its budget, the provincial government produces a budget that estimates revenues and expenses for the coming year. If the government estimates there will be more than enough money for planned expenses, the budget has a *surplus*. If the estimate is that expenses will exceed revenues, the government announces a *deficit*.

The deficit of \$9.7 billion announced in the 1991 Budget last April included capital investment. However, most jurisdictions nowadays separate their expenses into operating and capital costs, treating capital spending as a long-term investment. Homeowners do the same when they put monthly mortgage costs in the family budget, but not the full amount of the mortgage.

Ontario has now also adopted the practice of reporting operating costs and capital investment separately.

Governments also carry a *public debt*, which is the amount of money it has had to borrow over the years when expenses have been higher than income. Surpluses can be used to help pay off some of the Province's debt. The 1991 deficit will be added to the Province's existing public debt of \$42.3 billion.

How does government handle a deficit?

Governments have to borrow money to cover their deficits. For the most part, Ontario does this by issuing government bonds. It also has to borrow money to refinance bonds that have matured, that is, are due to be paid off.

This year Ontario borrowed \$9.7 billion for the deficit and another \$0.6 billion for refinancing, for a total borrowing requirement of \$10.3 billion.

It is important to put Ontario's debt in perspective.

Our economy can readily afford the debt load we have now. Our debt is lower, in comparison to the size of our economy, than that of most other provinces and certainly far lower than the Federal Government's debt.

But with the economic problems we face now, debt loads can grow quickly. With that in mind, we believe we should not permit current spending and revenue trends to continue unchanged.

Who does Ontario borrow money from?

Ontario borrows from various sources, both public and non-public.

Public sources are those available to any borrower. Ontario does most of its public borrowing by offering bonds to investors in Canada, the U.S., Europe and the Far East. In 1991, Ontario borrowed about \$9 billion by issuing bonds.

The *non-public sources* are those that are restricted in who they can lend to, such as the Canada Pension Plan. This year, Ontario borrowed about \$1.2 billion from non-public sources.

Until recently, Ontario was required to borrow from public sector pension funds like the Teachers' Pension Fund and the Ontario Public Sector Pension Fund. By law, these funds were not eligible to make loans to anyone else. However, that law has changed to permit the funds to make other loans and Ontario has to look elsewhere to borrow much of its money. That includes borrowing outside of Canada, which takes the interest we pay out of our economy.

Even so, because most of the Government's borrowing in the past has been through non-public sources, more than 75 per cent of our present debt is held by Canadians.

How much does the debt cost us?

This year, Ontario paid about \$5 billion in interest to investors who have lent the Province money to finance its debt. Since every year's deficit is added to the debt, the amount going to interest payments each year has been increasing. As *public debt interest* rises, a government has less money available to cover its people's social and economic needs.

Ontario pays about 11 cents out of every dollar it raises to public debt interest. By comparison, the Federal Government is paying about 35 cents out of every dollar collected in revenue.

Not only does the amount of money to be borrowed increase. The interest the Government must pay on what it borrows can also increase as the debt grows because lenders will insist on higher rates of interest. Interest rates also rise if our *credit rating* slips.

What is a credit rating?

Most adults have a credit rating based on whether they pay their bills on time.

Credit ratings are assigned to governments in much the same way. A number of credit rating agencies in Canada and the U.S. examine a government borrower and then decide how safe it is to lend it money. Just as with private citizens, the better risk a government is, the better its credit rating and the lower the rate at which it can borrow money.

Credit rating agencies equate larger debt with higher risk. As Ontario's public debt rises, our credit rating may drop, making it more difficult and more expensive for the government to borrow.

Ontario's Economic Outlook

Economies go through periods of cyclical change. That is, they go through periods of growth, with new businesses forming, lots of jobs and high levels of consumer spending. But they also go through downturns when growth slows, unemployment rises and everyone cuts back on personal spending.

Sometimes a downturn will become severe enough to become a *recession*, and that's the stage Ontario's economy is now in.

However, the recession is being fuelled by radical changes to the global economy which are forcing regional economies such as ours to restructure, that is, to change from a traditional manufacturing base to more high-technology businesses, and to develop the skilled workers for this new kind of economy.

A recession causes temporary job losses; restructuring is causing some jobs to disappear forever. The solution is not only to create more jobs, but to create jobs that will contribute to a revitalized economy that will thrive in the new global economy.

Whatever action the Government takes to support economic renewal will have to create and maintain jobs, attract dynamic new investment and promote consumer and business confidence.

What have been the effects of the recession on Ontario?

In the 1982 recession, Ontario lost 11,150 jobs forever through plant closings. In 1990 alone, there were 20,554 jobs lost permanently. There are 232,000 fewer people employed in Ontario today than there were two years ago.

The number of people on social assistance has soared to almost one million in Ontario. This has doubled the program's costs to about \$5.2 billion this year.

Other programs also feel pressure from the recession.

The Federal Government's policy of maintaining high interest rates and a high dollar made things even worse. The Goods and Services Tax has made consumers reluctant to spend and hurt business. The Free Trade Agreement, brought in without the promised federal aid to help business and workers adjust, has cost us jobs and investment.

What are the prospects for economic recovery?

Economists are now predicting a moderate recovery in the economy in 1992 with an average growth rate of 3.6 per cent by 1995 (See Figure 3). During the boom recovery of 1983-86, real economic growth averaged six per cent a year.

Forecasters believe there'll be 59,000 new jobs in 1992, but unemployment generally will remain high, remaining above eight per cent through to 1995. The new jobs will replace barely one-third of the jobs lost in 1991. This underlines the message that the economy is still in serious trouble.

Few people predicted the recession would last as long as it has. The U.S. economy is still weak and that has a tremendous effect on our economy. Our recovery will also be slowed by high interest rates, a high Canadian dollar and low corporate profits.

This weak recovery will make it difficult for businesses to finance the investment needed to deal with restructuring of the global economy and their long-term competitiveness.

We want the economy to grow faster than the table in Figure 3 suggests it will. By following the road we set in the 1991 Budget, we think we can help to revive the economy.

Figure 3

Forecast for the Ontario Economy, 1991-95 (Per Cent)

	1991	1992	1993	1994	1995
Real Growth	-2.4	2.2	4.8	3.8	3.6
CPI Inflation	4.7	2.3	2.6	2.8	2.6
Employment (000s)	-167	59	165	135	138
Unemployment Rate	9.6	9.6	9.0	8.6	8.1

Source: Ontario Ministry of Treasury and Economics.

Ontario's Fiscal Outlook

For the first time, the Ontario Government this year is releasing — prior to the Budget — its forecast of revenues and expenses for the coming fiscal year. What follows is a very brief summary of the Ontario Fiscal Outlook for 1992-93.

Much of it is based on what Government economists think the economy will do, if programs and services remain at present levels and no new programs are introduced.

What is Ontario's revenue outlook for 1992?

Ontario Government revenues in 1992 are expected to decrease to about \$42.2 billion. That's \$600 million less than the Government expects to receive in 1991. This will be the second year in a row that Government revenues have gone down.

This is unprecedented. The last time Government revenues actually dropped from the preceding year was in 1945. For the past decade,

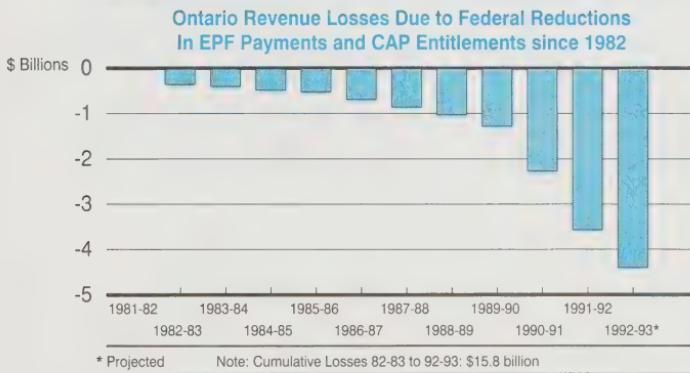
even through the recession of the early 1980s, the Ontario Government's revenues increased by an average of about 11 per cent a year.

The weak economy is partly to blame. Unemployment reduces personal income tax. Cautious consumers don't buy as much, which affects retail sales tax. Corporate spending and profits are down, also affecting tax revenues.

The Federal Government is also to blame. Ontario taxpayers provide about 45 per cent of federal revenues. Yet, beginning in the early 1980s, Ottawa has put limits on its transfer of money to Ontario (See Figure 4).

If the Federal Government had honoured the original terms of transfer arrangements, Ontario would have received \$3.7 billion more in 1991. That is equal to over one-third of the 1991 Provincial deficit. In 1992, Ontario will receive \$4.5 billion less than allowed for under the original transfer arrangements.

Figure 4



What effect does this have on the deficit?

As revenues drop, the difference between the Government's income and what it must spend to maintain services increases. Government economists estimate that if all present programs and services continued, but no new ones are introduced, the operating deficit in 1992 would be \$11.2 billion. If the \$3.3 billion in capital investment from 1991 is repeated in 1992, the Government would have to borrow \$14.3 billion to meet capital and operating expenses in 1992. The Government believes this level of deficit is unacceptable. We are committed to striving to reduce the operating deficit.

What will Ontario be spending in 1992?

That information is what the 1992 Budget will reveal, sometime in the spring. One of the reasons the Ontario Government is releasing so much information at this time is that it wants to encourage public debate on spending and on increasing revenues.

Without any changes — no program cuts and no new programs introduced — Ontario's operating expenses next year

will rise to almost \$53.4 billion, about five billion dollars more than we will spend in fiscal year 1991 (See Figure 5). These are operating expenses only, without counting capital investment.

However, there are pressures to spend more that will be very hard to resist — and perhaps, not even in our best interests to resist. For example, if more jobs are lost, more money may be needed for social assistance.

Right now, nearly one million Ontarians are relying on social assistance, including one in six children. We will have to spend an additional \$1.2 billion for social assistance next year.

What about capital investment?

If capital investment in 1992 also remains at 1991 levels, it will total \$3.3 billion. That doesn't include \$620 million that was a one-time only expense in 1991 to fight the recession.

However, capital investment can create new jobs, refurbish our current infrastructure and build new infrastructure that will help with economic renewal and accommodate population growth.

But can we afford to increase capital investment in 1992? Can we afford not to increase capital investment in 1992?

Figure 5

Operating Expenditure Outlook (\$ Millions)			
	1991-92 Revised Outlook	1992-93 'No-change' Scenario	Difference
Major Transfers	15,946*	16,106	160
Transition Assistance for Major Transfers	0	160	160
Social Assistance	5,150	6,400	1,250
Public Debt Interest	4,960	6,160	1,200
Pay Equity	75	385	310
Ministry of Health (Excluding Hospitals)	9,410	9,680	270
Teachers' Pension Fund	820	1,030	210
Amortization of 1991-92 Capital	0	200	200
Ministry of Community and Social Services** (Excluding Social Assistance)	3,210	3,420	210
Non-Profit Housing	430	620	190
Ontario Legal Aid Plan	165	280	115
All Other	8,429	8,964	535
	48,595	53,405	4,810

* Includes one-time adjustments.

** Includes Long-Term Care Reform funding.

VII

Working for Economic Recovery

What has the Government done to trim operating expenses?

The Government has avoided even higher increases in operating costs by making some tough decisions about the amount of money ministries and agencies will receive in 1992. Municipalities, universities, colleges, schools and hospitals will be receiving a one per cent increase in 1992 over the \$15.9 billion that they received last year.

Last year, salaries for Cabinet ministers, members of the legislature, deputy ministers, heads of government agencies and more than a thousand other senior government officials were frozen.

The non-salary budgets of all government ministries have been cut by ten per cent.

Recently, the Province and the Ontario Public Service Employees Union (OPSEU) reached a settlement which will make significant progress towards maintaining the level of public services in our current fiscal situation.

We've initiated a review of programs to find further savings, cut waste and deliver services more efficiently, cutting costs without cutting quality. For example, last year we were successful in trimming \$180 million from the health care budget by negotiating an agreement with the Ontario Medical Association.

Most of these initial reviews are still under way, with results still to come. However, we've already decided to make program review an on-going process.

These reviews provide more than just a way to save money. They are also an opportunity to make long-needed reforms within the public sector.

Ten programs account for approximately two-thirds of Ontario's operating costs, listed in Figure 6. To achieve any significant savings, some of these programs would have to be affected.

Figure 6

Ten Largest Operating Programs (\$ Millions)

Program	1990-91 Actual	1991-92 Revised Outlook	Per Cent Increase
Operation of Hospitals	6,702	7,285	8.7
Ontario Health Insurance Plan	4,692	5,257	12.0
Social Assistance	3,489	5,150	47.6
Public Debt Interest	4,313	4,960	15.0
Operation of School Boards	4,521	4,839	7.0
Operation of Universities	1,823	1,944	6.6
Operation of Colleges	772	826	7.0
Unconditional Grants (Municipal)	902	947	5.0
Ontario Drug Benefit Plan*	755	831	10.0
GAINS** and Property & Sales Tax Grants	592	603	1.9
Total	28,561	32,642	14.3

* Excluding Ministry of Community and Social Services.

** Guaranteed Annual Income System for seniors.

What can the Provincial Government do to promote an economic recovery?

The Provincial Government is limited in what it can do to address the economic downturn. We don't set the policies that affect the larger economy in which Ontario operates. We don't control trade policies nor do we control monetary policies that set interest rates or determine how easy it is to get a loan.

However, the Government does believe it has a role to play in creating and maintaining jobs, and in laying the groundwork for a renewed and stronger economy.

We took that approach last year when we invested in capital works that preserved public assets and jobs, and when we met the needs of the municipalities, universities, colleges, schools and hospitals. It was not the time for one of the major forces in our economy — the Government — to reduce its role.

This was not the approach of the Federal Government, but time has shown that we were right. Now, other governments in the United States and Canada, faced with a continuing recession, are accepting the need for government action to address the economy.

Circumstances have worsened since then, increasing the need for fiscal responsibility. Nevertheless, restrictive policies may make the recession worse, not better.

The Government's first priority is jobs. By investing in Ontario, and investing in our people, we can save jobs and create new ones.

We are laying the foundations of an ambitious training scheme that brings business, labour and the community together to make sure people are getting the right kind of skills.

We're investing in research and development for new products that we can make here in Ontario, and sell in markets around the globe, by working with universities, colleges and private industry.

This year, we'll create thousands of jobs by building housing in every part of the province.

To increase investment, we're looking at setting up a fund so pension plans can support business and jobs here in Ontario.

We're focusing our industrial strategy on new ways the Government can encourage investment and job creation in Ontario: helping new industries locate in Ontario.

Will an economic recovery solve our problems?

A recovery will help Ontario's financial crunch because revenues will increase, but it will not be a cure-all. Not all our problems are due to dropping revenues. In the 1980s, an economic recovery helped reduce the deficit, but so did tax increases. About one-quarter of the growth in government revenues in the 1980s came from tax increases. Expenses kept on rising — even after the 1982 recession ended — because there was not enough of an attempt to trim spending.

When this recession ends, expenses will continue to rise unnecessarily if we do not take measures to control them.

VIII

Putting Together the 1992 Budget

To put together a personal budget, a householder has to estimate possible wage increases, rent increases, tax changes and so on. In other words, householders have to estimate how their revenues and expenses may change over the coming year.

A government is no different. It needs to develop the same sense of how its revenues and expenses may change.

For government, much of this comes from estimating how the economy will perform, because the economy has a big impact on government revenues and expenses.

A recession causes tax revenues to fall since people and companies earn and spend less. Consequently, they pay less income and sales tax.

A recession also causes government spending to rise. For example, many more people need social assistance. The number of families and individuals who will have to rely on this program is expected to increase by about 20 per cent in 1992.

What sorts of decisions will shape the 1992 Budget?

The Government makes its budget decisions based on its priorities. The present Government of Ontario has made its priorities well known — fighting the recession, promoting economic renewal and

preserving the quality of life in our communities through social justice and public services.

For 1992, we are faced with tough questions. Should we let the deficit rise while the recession lasts? If not, where should we cut spending? Or do we raise taxes? Can we afford to take no action to help fight the recession?

Is raising taxes the answer?

Aside from the unpopularity of such a move, we also have to weigh the impact that raising taxes would have on individuals and the economy against the benefit to Provincial revenues.

There's certainly no single tax hike that would resolve Ontario's revenue problem, and each kind of tax increase carries its own risk. For example:

The retail sales tax accounts for 19 per cent of Government revenues. A few goods are specifically exempt from retail sales tax; only a few services are taxable. More revenue could be generated by either increasing the rate or by broadening the sales tax base. Raising the retail sales tax one percentage point would bring revenues of just under a billion dollars, but might depress the economy further.

Raising personal income tax by one percentage point would bring in about \$275 million in a full year, but might cause consumers to cut back their spending even further.

The Government could increase the surtax on high-income earners, or lower the income level at which it is applied. However, the surtax was raised in 1991. Any change in income tax may affect personal savings and/or consumer spending. It could also make Ontario less attractive to mobile individuals with skills the province needs.

Some commodity taxes in Ontario are low relative to other provinces, but raising them might prompt a change in consumption that might,

to some degree, offset an increase in revenues. Increases to current taxes might be perceived as increasing the incentive for cross-border shopping, although a number of studies suggest that there are many other contributing factors more important than taxes.

Figure 7 shows how much specific tax increases would yield.

(There is a more detailed discussion of Ontario's tax system and the effect of raising specific taxes in the *Ontario Fiscal Outlook* for 1992. Ordering information is on page 23.)

Figure 7

Estimated Yields (\$ Million)		
	Rate Increase	Full Year Yield ¹
Commodity Taxes		
Gasoline Tax	1 cent/litre	120
Tobacco	1 cent per cigarette	140
Alcohol	10 cents/litre	105
Payroll Tax		
Employer Health Tax	1/10 point	145
Income/Sales Taxes		
Personal Income Tax	1 point	275
Corporate Income Tax	1 point	160
Retail Sales Tax	1 point	900
Capital Tax		
	1/10 point	140

1. Assumes no change in behaviour, except tobacco.

Are there special considerations for the 1992 Budget?

Yes. In most years, there is an imbalance between revenues and expenses. The current recession has widened that imbalance until it is threatening to reach critical proportions.

But the Budget must also address the wider problem of economic renewal, the ways in which Ontario will adapt its economy to match global economic changes.

The economic changes that are affecting most countries are changing the kinds of businesses that will flourish and the way that business will be carried on. Manufacturing and resource extraction industries like forestry and

mining, industries that have helped us to prosper, are becoming less important. Services and high-technology industries are gaining ground.

The Government is committed to supporting efforts to make Ontario business competitive with the global economy that is developing. That means helping industries to change to achieve high levels of employment, more training and life-long learning for workers, constant improvement in what we make and how we make it, and better co-ordination of environmental and economic goals.

Meeting the Challenges

During the next few weeks, our Government will be putting together the 1992 Budget. We have some difficult decisions to make about spending, taxes and the deficit. These decisions will affect all Ontarians.

The annual budget is the cornerstone of a government's economic strategy. The 1992 Budget is all the more important because of the severity of this recession and the need for the Government to play a role in Ontario's economic renewal.

We have a complex set of needs to meet. We need to deal with unexpected weakness in the economy and in the Province's revenues. We need to prepare Ontario's workers for new types of jobs and we need to help create those jobs. We need to find ways of providing essential public services more effectively.

We must do all these things while maintaining our commitment to fighting the recession, promoting economic renewal and preserving the quality of our lives through social justice and good public services.

If you want to send a letter or make a written submission relating to the 1992 Budget, please address it to:

Floyd Laughren
Treasurer of Ontario
7th Floor, Frost Building
South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Y7
Fax: (416) 325-0374

In addition to this Budget Guidebook, the *Ontario Fiscal Outlook* and the *Ontario Economic Outlook* for 1992 are available.

Copies of these documents are available from:

Publications Ontario
Bookstore
880 Bay Street, Toronto
M7A 1N8

How to do all these things poses an enormous challenge.

Government and society as a whole will be judged by future generations on the quality and fairness of the decisions we will make in the next few months.

Few of us feel confident that the old way of making these decisions will work. The Government hopes all Ontarians will choose to be part of this more open decision-making process.

How can you participate?

The Treasurer will be meeting with many groups and individuals as part of pre-Budget discussions. Unfortunately, he can't meet with everyone. But we encourage you to write in with your thoughts and advice.

You can initiate and take part in this debate through community groups, unions, service clubs and professional associations. You can talk to your MPP or express your views through the media or directly to the Treasurer by writing with your advice. We urge you to make your views heard.

*Out-of-town residents
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Publications Ontario Mail
Order Service
880 Bay Street, Fifth Floor
Toronto, Ontario
M7A 1N8
Tel: (416) 326-5300
Toll-free: 1-800-668-9938

*Ce rapport est disponible
en français.*

PREMIER BOB RAE'S TELEVISION ADDRESS

(January 21, 1992)

Good evening.

I want to talk to you tonight as directly as I can about our province: what's happening to our economy, the government's budget situation, and some of our plans to help build a better future for Ontario.

Many of you phoned, or wrote, or talked with me to pass on your thoughts about what I should say tonight. I got some good advice – even if it wasn't all the same! But if there was one common message among all those different views, it was to tell it like it is.

I know you're fed up with being told only half the truth, or sometimes none at all. There isn't much trust out there for what politicians of all parties have to say. I understand that. You deserve better.

Tonight there will be some tough news. These are tough times, as you all know.

But there's also some good news. This is no time for pessimism or giving up.

We're wrestling with some of the hardest challenges we've ever had to confront. But just think for a moment about what we have in Ontario: our people, our skills, our resources. This is a great province, in a great country.

It's not going to get better overnight. We didn't get into this mess in a day, and we won't get out of it in a day either.

But are there reasons to be hopeful? Yes. Should you be optimistic that it's going to get better? You bet.

But let's start with the tough stuff.

Today, my government – for the first time in this province's history – opened the books before a budget to share with you a complete report on our finances: what we spend money on, and how we raise and borrow money.

We didn't share this information before last year's budget, and I wish we had.

We've learned how important it is to do that, and how much we gain from the views and opinions of people.

That's why we opened our books now, before we decide the rest of the budget, because as far as we're concerned, it's your right to know what's happening to the government's balance sheet – and your tax dollars.

If you'd like a copy of this report, we'll let you know how you can get one in a few minutes.

We've already had to make some difficult decisions because of our financial situation.

Today we told municipalities, hospitals, colleges, school boards and universities that they are being held to the lowest increase ever.

Let me explain why.

We've had a rough couple of years in Ontario, and Canada: free trade, a lot of lost jobs, the expensive dollar, GST, a tougher global market. It's not just a recession: our economic world has changed, and it's not going to be business as usual ever again.

Our balance sheet in government has been hit hard, just as yours has been. We're taking in less money, but our costs are up because of the demands from all sides.

Reading the newspapers and watching TV, you might think that everybody just wants government to cut back. But from my chair it's a different story. People from all walks of life rely on the government to play a role in the economy, and they look to us – and their fellow taxpayers – for help.

Farmers, small business owners, mayors, laid-off workers, even some of the largest companies in Ontario: these and more are saying they need help to get them through the hard days. Don't talk to them about government cutting back!

When it came to last year's budget, we decided to take on the recession, and fight it. We invested more money than ever before in building bridges and roads and schools and homes – and building those basic assets is good for all of us.

We've worked closely with many businesses that have a strong future – and we used the resources of government – to help them stay open and grow.

As part of our commitment to jobs, we've invested in training, research and development in key industries – in co-operation with business and workers – to make sure Ontario can take advantage of new opportunities.

We helped the employees of bankrupt companies by making sure they got the wages they were owed even if their employer wouldn't pay.

Yes, the deficit grew, and not everybody liked that. But we believed then, and we believe now, that our public services like schools and hospitals, are too fundamental to

our prosperity, and our quality of life, to be abandoned by this government, or any other.

Building a fairer society, with good public services, must not get put on hold, especially in a tough economy. Sure it's easier to make progress in good times. But this government will not forget its commitment to people.

This year I'm pleased to say the economy will get better, but the recovery is going to take time, and certainly won't make up for all the jobs lost in recent years.

On the income side, and I'll be blunt, we're really getting hammered. When people lose their jobs, and companies go out of business, and everybody spends less, government revenues fall. It's really as simple as that. At exactly the time when demands have never been higher in the province, in fact we have less money to handle them.

And as hard as the recession has hit Ontario, the federal government – despite the billions of dollars we send them every year from this province – isn't paying its share of our health, education and social assistance budgets any more. That's added tremendous pressure on our costs.

And that's why I say we're facing some tough choices. We've got to find that balance between the cost of the services people need and expect, and what we can afford.

The report we released today shows clearly that, as matters stand right now, our operating deficit will be high – too high. To get it down we're going to have to make decisions about spending and about taxes. These are the decisions we're making between now and the spring budget.

We want to do this in a way that's as fair as possible, that maintains key supports for people who need them most, and that doesn't make the recession worse.

We've put tough controls on spending as we've continued to strive to reduce the deficit, and we started taking those steps last year. I want you to know what your government has done:

- We started at the top, and last October we froze the salaries of Cabinet ministers and members of the legislature. We froze salaries of deputy ministers, more than a thousand other senior government officials, and the heads of government agencies.
- We've cut the non-salary budgets of all government ministries by 10 per cent.
- We've negotiated an agreement with our own employees for a two-year contract that will, if ratified, give them a one per cent wage increase this year and a two per cent increase next year.
- We've put controls on health coverage when people travel out of the province, and restricted the use of clinics in the United States for services that are here in Ontario.

- We're looking at a huge range of government activities to find further savings, cut waste and deliver services better. Those decisions will be announced in the budget this spring.

And today, as part of our commitment to get costs under control, I am announcing that we're limiting transfers for basic operations in our hospitals, municipalities, schools, universities and colleges to just a one per cent increase this year and two per cent in each of the next two years. That's just five per cent, spread over three years.

I want to talk about this decision with you, because it's an important moment for our province.

Let me try to compare how governments make decisions with how a family makes decisions.

There aren't many people who can go out and buy a house with cash. Most people have mortgages if they own a home. Most people need a loan to buy a car.

It's not much different for government. When we build a highway, or a rapid transit system, or a school, it's like borrowing to buy a house: It's our investment in a lasting asset.

But there is a problem if we're not paying as we go for things like health care and welfare. Because of the recession, many people who want to work have been forced on welfare, and our costs have gone up nearly \$3 billion in two years. The costs of health care have gone up even more. We have to pay for these programs.

So it's not a matter of whether deficits are good or bad, any more than your mortgage or your car loan is bad. It's a matter of what we can afford.

And we are determined not to be spending so much of our money on paying off interest that we lose our ability to respond to human needs – in good times and in bad. We have to take charge now, to make sure we have the money for investment and job creation.

With inflation now expected to drop to close to two per cent this year, we can't keep on funding programs at several times that rate. That's a blunt message, and how our public services handle this reality is their most serious challenge in decades.

And how they do it will affect you directly.

Let's look at hospitals. For the last three years, they got almost 10 per cent more money each year from the provincial government. Today, hospitals learned that they'll get one per cent, and over three years a total of five per cent. That's a big – and sudden – change.

So a hospital has two choices.

It can cancel programs, cut beds, and fire staff.

Or that hospital has another choice: everyone concerned – the board of directors, the workers, the unions, the management, other hospitals, the community – can sit down together and work out a way of reconstructing their services to cope with these new financial realities.

We're facing inevitable, but necessary, change. And we want people all across Ontario to see this as an opportunity to reconstruct our public services to deliver them more efficiently, and effectively.

It will be difficult – in some cases, very difficult.

But to manage this change, we must come together with every bit of imagination, creativity and co-operation we have, and work out the fairest ways to maintain services, streamline operations and preserve jobs.

It's clear that wage increases – at every level – must be moderated to protect jobs, and to allow us to invest more in the future.

I want to emphasize this point very strongly: from hospital administrator to doctor to nurse, from director of education to classroom teacher, the solutions must be shared, across the board.

I want our partners in all those sectors to know that we realize things have to change. We need to cut down on the duplication between us and municipalities and school boards. We need to get more health dollars directly into the community, particularly for the elderly.

We'll be there to help in the restructuring. No one's out there on their own.

That is the challenge: take a deep breath, and plunge in with a determination to be fair, to be realistic, and above all, with a profound commitment to protect our network of public services.

But there is an even greater challenge, to all of us in Ontario.

We have to get this province moving again. If we're going to keep and improve services for people, if we're going to build that fairer society, we have to get the economy going. And I commit this government to working with you to that end.

That's why our first priority is jobs. By investing in Ontario, and investing in our people, we can save jobs, and create new ones. And that's the strategy of this government.

Last week I was at the Canadian General Electric plant in Oakville where, with the help of your government, the company is making its largest-ever investment in Canada. This is a great vote of confidence in Ontario, and in the future.

It's a project that has brought together business, labour, governments and Ontario Hydro in a partnership to create jobs in Ontario by making energy-saving lamps to sell around the world. Good for the environment. Good for jobs.

Let me run through just some examples of how our strategy on jobs is working:

- We're laying the foundations of the most ambitious training scheme in North America, bringing business, labour and the community together to make sure people are getting the right kind of skills.
- We're investing in research and development for new products that we can make here in Ontario, and sell in markets around the globe, by working with universities, colleges and private industry.
- This year, we'll create thousands of jobs by building housing in every part of the province.
- To increase investment, we're setting up a fund so pension plans support business and jobs here in Ontario.
- A new worker ownership program we introduced last year allowed workers, the community and the private sector to join together to run a paper mill in Kapuskasing in Northern Ontario, saving hundreds of jobs and providing a new future for the community.
- We're focusing our industrial strategy on new ways the government can encourage investment and job creation in Ontario: helping new industries locate in Ontario.
- To give a boost to the construction industry, I've proposed that people be able to use their RRSPs to buy and fix up homes. We need Ottawa to agree, and that's the kind of leadership the federal government can provide in these times.

In early February, we expect the premiers and the Prime Minister to meet in Ottawa to deal with the economy.

When we last met before Christmas, I supported the call for new investments in capital projects across Canada: the federal government, provinces and municipalities co-operating to give a kickstart to the economy, and create jobs.

Tonight I am announcing that I intend to tell the Prime Minister that this province needs a massive investment in capital projects to help get people back to work, and invest in our future.

We want action now. We need to create jobs now. And this government is prepared to act and match any federal contribution dollar for dollar.

What better way to show the people of Ontario that governments in this country can work together.

What better message to the thousands of men and women who want to work, but instead are on welfare.

I know that many of Ontario's local governments – grappling with high rates of unemployment – will join us in a program of capital improvements to make Ontario an even better place to invest, work, and live.

This would be a great shot in the arm for our province.

With governments co-operating, and the private sector participating, we can give the economy a boost.

That's the commitment Ontario needs now, as we climb out of the recession back to economic health. Let's get ready for the recovery, training our young people, investing in our province, making sure Ontario will grow in the new economy out there.

I've learned in my 16 months as your Premier that government can't do it alone. And neither can anybody else. Not the business community, not the labour movement, not community groups. We need partnerships. We've proved they can work.

Our government will seek out new ideas, from whatever source. We'll listen, we'll discuss, and we'll decide.

You told me you wanted me to tell you like it is. I've tried to do that. There are no miracles. We've still got some tough times ahead. But I have confidence that, if we pull together, the greatest years for Ontario, and Canada, are still ahead.

Good night.

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Treasurer of Ontario



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